POLICYFIX

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Grain, trains and autocrats: Farmers pay the price of dismantling the Wheat Board

BY **DEAN HARDER** | APRIL 23, 2014

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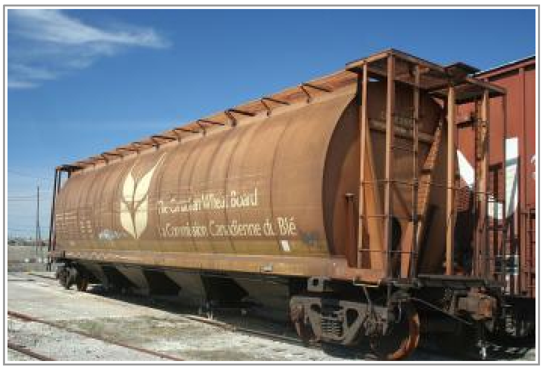

A banner 2013 crop year and some rail delays due to cold weather doesn't account for all our grain transportation woes. Co-ordination of rail to ships is out of synch: a study by Quorum Corporation found that rail shipments to the West Coast are down 2 per cent from last year, but there are excess ships waiting in port. In the east, grain shipments were down 20 per cent at Thunder Bay as of March with some ships turning away empty.

There is a direct correlation between the loss of the farmer-elected Canadian Wheat Board (CWB) and the current rail transportation boondoggle which will cost Prairie farmers over $5 billion in sales.

The CWB did more than sell wheat and barley for the benefit of prairie farmers. It oversaw orderly marketing and grain logistics. If premium 14 per cent high protein wheat was required by a buyer in Asia or Europe, it would be sourced from across the Prairies, placed in railcars, shipped to the designated grain terminals at the ports and placed on grain ships in a reasonable timeframe. Even if there were rail delays the single desk would sequence shipments through multiple terminals until a ship of 14 per cent wheat was full. The funds made from early dispatch would go back to farmers.

Fast-forward to 2014. Every extra day a ship sits waiting to get filled costs $15,000 to $25,000 per ship. This demurrage is wasteful on all fronts. Moreover, co-ordination of port shipments are not being managed effectively.

The former CWB was mandated by law to act as sole sales agent for wheat and barley for export and domestic human consumption. About 70 per cent of the Prairie crop was exported overseas, another 20 per cent was consumed domestically and about 10 per cent went to the United States. Wheat and barley amounted to over half the grain handled by the railways and elevator companies. If rail companies were not moving grain, the CWB was able to allocate cars and sue companies unwilling to fulfill the

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commercial obligations they made, to make that movement happen. After a winter of poor rail performance in 1997, the CWB sued both of Canada's largest railways. CN settled out of court and CP lost, paying $15 million to farmers in damages. Railways had to pay up for their poor grain handling that year. They didn't mess with the CWB after this event.

Today, there is no regulatory body with this mandate or ability. The grain companies would not dare to fight the railroads since their elevators are largely captive to one or other of the railways and extra costs incurred are passed back to farmers in the form of lower farm gate prices. But do they need to? In the past, farmers could expect to get 85 per cent of the pie. Today that share has been as low as 45 per cent. Now, there is great uncertainty as to what the new norm will be. Meanwhile, grain companies are raking it in. An estimate calculated by the Canadian Wheat Board Alliance puts the total corporate bonus at $168.93 per metric tonne or $4.60 per bushel.

This catastrophe could have been prevented

On Nov. 2, 2011 during a Special Committee in Parliament to discuss Bill C-18, the act to remove the single-desk CWB, former CWB Director Ian McCreary warned the government against removing CWB grain rail logistics operations without an adequate replacement. He referenced a 1980 example from the Soviet embargo in the U.S. to expose the potential for a major difference between the price at port to the price at the elevator of $100/mt ($2.72/bushel), if grain on the prairies became overly abundant.

The federal government paid no attention to warnings by farmers like McCreary but they should have. The real cost from elevator to port in February got as shockingly high as $246/mt ($6.69/ bushel) for wheat, a Canadian record. Normal levels would be around $77.07/mt ($2.10/bushel) which accounts for standard transportation, cleaning and storage fees. Even if the cost from elevator to port were reduced in half over the next few months it would still be extreme. The weather, the record crop year and the railways do not completely account for such a large shipping cost increase.

It is concerning that the Canadian Minister of Agriculture, Gerry Ritz, continues to defend his prior actions. Recently, when confronted about not setting up a grain logistics oversight organization as part of dismantling the single-desk CWB, his response was: "We saw this coming. That's why we put together the Crop Logistics Working Group."

Study groups are not systems. And in this case Ritz's team advocated for laissez-faire economics to allow the market to correct itself. The CWB would have seen this coming in August of 2013. Ritz only took action in March of 2014. He has bet the family farm on an ideological belief, which has turned into a $5-billion exchange of wealth from Prairie pockets to grain merchant coffers. Reality is showing us how disastrous the dismantlement of the CWB is for the rural Canadian economy.

Even as Bill C-30 ("*Fair Rail for Grain Farmers Act*") works its way through Parliament, the minister has ignored cries for a real arms-length oversight body. It includes very little to address the part that grain companies play in exploiting the current market structure.

To address this situation, the farmer-elected single-desk CWB should be re-instated. We need grain logistics oversight that benefits farmers. Railways should be penalized significant amounts for lack of movement. The current $100,000/day is not enough. Level the playing field by placing a cap onto oligopolistic grain company revenues, just as a cap exists for the railroads, which has proven essential in fighting exploitation by CN and CP.

Today, the temptation for grain companies to manipulate the market from inland to port has become far too lucrative to resist. We now exist in a system that allows grain robbery to be legal.

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Photo: ***Robert Taylor/Wikimedia***